



## STATE OF RHODE ISLAND

### DIVISION OF PUBLIC UTILITIES & CARRIERS

89 Jefferson Boulevard  
Warwick, Rhode Island  
02888 (401) 941-4500  
(401) 941-9248 - Fax

**To: Luly Massaro, Commission Clerk  
Rhode Island Public Utilities Commission**

**From: Robert Bailey, Associate Public Utilities Administrator  
Al Contente, Utility Analyst  
Rhode Island Division of Public Utilities & Carriers**

**Date: November 3, 2021**

**Re: Docket No.: 4800 – In Re: SUEZ Water Rhode Island Application to Change Rate Schedules to Implement Distribution System Improvement Charge (DSIC)**

---

On September 20, 2021, SUEZ Water Rhode Island (“Company” or “SUEZ”) filed a request to implement its first Distribution System Improvement Charge (“DSIC”) in accordance with the DSIC mechanism approved in its last general rate case in Docket 4800. In general, the DSIC mechanism allows for a surcharge to be added to customer bills to allow for the recovery between rate cases of non-revenue producing qualified additions such as replacement and rehabilitation projects including work done to mains, main cleaning, services, hydrants, valves, and meters. The maximum allowed surcharge on an annual basis is 2.5% with a cumulative cap between rate cases of 7.5%. In its filing, SUEZ requested the maximum annual DSIC surcharge of 2.5% and an effective date of November 5, 2021.

### **Review of Distribution Plant Additions**

According to the SUEZ filing, the company completed \$3,682,933 worth of DSIC qualified improvement projects between October 1, 2018, the effective date of new rates in Docket 4800, and July 31, 2021. The improvements included \$1,865,855 of blanket projects<sup>1</sup> and \$1,817,078 related to the replacement of 5,560 linear feet of distribution main for the River Street Water Main Replacement and the Winchester Drive Water Main Replacement projects.

---

<sup>1</sup> The Division expects greater detail about the blanket projects will be provided in the annual report and that said report will be filed in a timely manner as set forth in the Settlement Agreement and Order.

The Rhode Island Department of Health Center for Drinking Water Quality requires all water suppliers to submit a Clean Water Infrastructure Replacement Plan (“IFR Plan”) as part of their regulations. This document typically contains information about the existing water system, evaluation of the components of the system, and a capital improvement plan. SUEZ submitted their most recent IFR Plan on September 28, 2020. The Division reviewed the IFR Plan for items pertaining to the DSIC request.

SUEZ uses a risk-based asset management analysis to determine the priority of main replacement projects. Replacement is identified as a recommended action for 3% of the SUEZ Network projects. In the IFR Plan SUEZ identified 18,000 linear feet of main requires replacement at a cost of approximately \$3.6 million for the five-year period ending in 2025.

Based on our review of SUEZ’s filing, and a site visit, the Division concluded that SUEZ successfully replaced 5,560 feet of DSIC eligible water main. The average cost per foot of the two projects was \$325. Though there are many variables that impact the price per foot of a project, the cost of the projects appears to be within reason. The Division did not complete a detailed review of the blanket projects but the list of projects included in the filing are the type of improvements contemplated under the DSIC mechanism.

### **Review of DSIC Calculation**

The Company’s filing included a detailed calculation of the proposed DSIC surcharge. The Division reviewed the calculation and concluded it was accurate and in accordance with the Order approving the DSIC mechanism in Docket 4800. In summary, DSIC plant investments totaled \$3,682,933 from which the amounts in base rates and the base spend amounts were removed to arrive at the eligible investment of \$1,144,455. The composite depreciation rate was then applied resulting in depreciation expense of \$17,508. The pre-tax return on investment totaled \$97,350 which was calculated by applying the overall return allowed in Docket 4800 to the eligible net investment (eligible investment less rate-based deductions) of \$1,138,594. The depreciation expense and return total \$114,858 which was then grossed up by the revenue recovery factor resulting in a total DSIC revenue requirement of \$116,818 which based on projected revenues calculates to a DSIC allowance of 5.25%. As stated earlier, the maximum allowed annual DSIC surcharge is 2.5% and SUEZ properly limited their request to 2.5%. That 2.5% annual charge on each customer’s bill is in-turn capped at 7.5% total until the Commission holds a base rate case, which should be kept in mind for any future filings.

### **Timing of the Filing and Compliance with the Settlement Agreement and Order**

This filing is Suez’s first filing regarding the DSIC surcharge and covers a period longer than expected at the time of the Settlement Agreement. Per the Settlement Agreement and Order, the Company is required to file within 15-days of the six-month DSIC period after qualified additions were put into service. The company stated in its filing that the period ended July 31, 2021 but did not file until September 20, 2021, well past the established 15-day filing period. In this first DSIC request, SUEZ filed it 9-months after the installation of qualified improvements. PUC Data Request 1-3 in part inquired into why the Company did not file sooner. The Division feels that the

response provided did not completely answer the question. As this is the first filing, and the delay only seems to delay the ultimate rate increase to customers while not necessarily impeding the completion of projects, the Division does not object to the timing of the filing at this time. However, we would point out that the filings should be made in a timely manner and that the 12-month annual DSIC filing, with back-up data to be filed within 90-days after the end of the first 12-month DSIC period should be made on-time.

Since the DSIC was approved as part of the 2018 filing, 3 years and 1 month will have passed as of the requested effective date. As testified to in the technical session on August 28, 2018, one purported benefit of the surcharge was that it would allow the Company to replace mains and make other repairs quicker than they otherwise might be able to on a standard rate-case timetable. If this is to be the case, the Company should be more responsive when planning and implementing projects that will then be supported by a DSIC with a streamlined filing structure. The original settlement between parties and approval of the Commission was meant to allow for a quick review and approval process. The expected 12-month filing with supporting documents is meant to allow for a more thorough review at a later date. This framework offered by SUEZ and accepted by the PUC is supposed to make the Company more nimble when it comes to non-revenue generating system repairs/improvements.

### **Conclusions and Recommendations**

After review of SUEZ's filing, the Division concluded that the distribution system improvements are eligible for recovery through the DSIC mechanism and the proposed surcharge was properly calculated. The Division recommends approval of the proposed DSIC surcharge. In addition, the Division recommends that SUEZ submit updated language to incorporate into the tariff with respect to the DSIC surcharge that explicitly states what the surcharge is and how it will be applied to rates so that it is clear without reference to the Commission's Order.